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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Ms. Michele C. Farquhar
Chief, Wireless Telecommunications Bureau
Federal Communications Commission
2025 M Street, NW, Room 5002
Washington, DC 20554

Re: WT–Docket No. 96-59; D, E and F Block Auction Rules

Dear Ms. Farquhar:

It was a pleasure meeting with you in New York last month. As we discussed, I truly believe that the wireless industry is one of the strongest growth segments in telecommunications both domestically and internationally. To follow up our discussions, I want to reiterate some of my recommendations for minor changes to the bidding rules for the upcoming D, E and F block PCS auctions. These recommendations are based on my experience in participating in various telecommunications auctions around the world as well as my experience working with C block participants.

First, scale is important. However, small businesses that acquire more POPs than one reasonably can expect to build out may be penalized by the capital markets. A good example of this is Omnipoint, arguably the pre-emminent small business PCS company in America. Before acquiring an additional 13 million POPs in the C block auction, Omnipoint had been trading at an intrinsic value per POP of approximately $65. Post C block auction, the market has apparently penalized the company by discounting the per POP value by close to 20%. Such a discount, at the margin, may result in public equity becoming too expensive, inaccessible or both. The result can be default when an apparent successful bidder realizes that the capital markets will not be cooperative.

A potential negative result may arise from a too aggressive appetite to acquire a large number of POPs. One method to minimize this would be to limit the number of POPs any single entity can acquire. The attribution rules should also be applied in this case so that gaming can be eliminated. In essence, limiting the number of POPs to an amount equal to the largest MTA will reduce the risk of failed financing as well as spread the licenses across a larger base. It may have the added benefit of increasing the median size of license holders and possibly improving the likelihood of financing in the public markets. Even some of the A and B block winners are concerned with their ability to build-out their territories in a reasonable (and statutorily acceptable) time frame. There is a distinct likelihood that a large portion of the U.S. will go uncovered by PCS for some time due to the concentration of licenses in the hands of a few. There are excellent examples of what happens when license hoarding occurs and control falls into the hands of few companies or consortia. The UK cable industry is an excellent case in point. A relatively small number of companies control the industry and regularly do not achieve their build milestones in some licensed territories while on a consolidated basis appear

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to exceed the milestones. The result is that some territory is left under penetrated for lengthy periods of time. This phenomenon can, I believe, only be eliminated if a licensee's total footprint is optimized to size and capability. The surest way to control for this is by constraining size while maintaining strict credit controls.

Second therefore, the FCC should improve its credit controls on bidders. This can be most effectively done by increasing the initial deposit and force bidders to be less speculative else they forfeit a meaningful sum. With the government assuming a large portion of the financing risk, the FCC should create rules that limit its financial exposure to speculation without discouraging bona fide risk takers. I would consequently recommend that the FCC require bidders to maintain at least 10% of the bidding liability on deposit at all times during the auction.

Third, to encourage the development and participation of small businesses in PCS, installment payments should be extended to qualifying entities in the D and E block auction. However, no discount should be permitted a D/E block auction participant, only financing relief. This approach will put small and large businesses on a more equal footing. Furthermore, it should provide for a more robust auction process with less price distortion than was evidenced between the A/B and C block auctions. Again, the added benefit may be that a larger number of winners will create a dispersion of licenses which will result in more entities building out their license territories simultaneously. Therefore, the potential for orphan territory should be minimized.

Finally, maintaining the existing deferred payment and interest rate schemes are viewed as valuable contributions brought by small business entrepreneurs to institutional investors. Without these same C block incentives applied to the F block winners, successful financing of F block licensees is highly unlikely (unless license costs are a quantum factor lower than the C block results) and may be near impossible ceteris paribus.

Please call me if you would like to discuss my recommendations in further detail.

Sincerely,

John C. Wilson
Vice President

cc: Chairman Reed Hundt
Commissioner James Quello
Commissioner Rachelle Chong
Commissioner Susan Ness
Kathleen O'Brien Ham
Jay Markley
Sue McNeil
William Caton